

Message Text

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ACTION EUR-12

INFO OCT-01 IO-10 ISO-00 AID-05 CIAE-00 COME-00 EB-07

FRB-03 INR-07 NSAE-00 TRSE-00 XMB-02 OPIC-03 SP-02

CIEP-01 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-01

CEA-01 FEAE-00 SAJ-01 PA-01 PRS-01 USIA-06 AGR-05

OES-03 INT-05 L-02 H-01 /106 W
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FM AMEMBASSY BUDAPEST

TO SECSTATE WASHDC 2724

INFO AMEMBASSY BELGRADE

AMEMBASSY BUCHAREST

USMISSION GENEVA

AMEMBASSY MOSCOW

AMCONSULMUNICH

AMEMBASSY PRAGUE

AMEMBASSY SOFIA

AMEMBASSY VIENNA

AMEMBASSY WARSAW

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GENEVA FOR MTN DELEGATION

E.O. 11652: N/A

TAGS: ETRD, ENRG, COMECON, HU, UR

SUBJ: FOREIGN TRADE MINISTER ANNOUNCES PRICE RISES
IN SOVIET-HUNGARIAN TRADE

1. SUMMARY: IN INTERVIEW WITH HUNGARIAN PRESS AGENCY
ON FOREIGN TRADE PROSPECTS WHICH APPEARED IN WEEKEND
EDITIONS OF BUDAPEST NEWSPAPERS, FOREIGN TRADE MINISTER
BIRO STATED THAT HENCEFORTH INTER-CEMA PRICES WOULD BE
ADJUSTED ANNUALLY RATHER THAN AT 5 YEAR INTERVALS WITH
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AVERAGES OF PRIES ON WORLD MARKET FOR PREVIOUS 5-YEAR

PERIOD TO BE USED AS BASIS FOR CALCULATION. IN ADDITION, BIRO ALSO MADE FIRST PUBLIC ACKNOWLEDGEMENT THAT PRICE CHANGES HAVE GONE INTO EFFECT FOR HUNGARIAN-SOVIET TRADE RETROACTIVE TO FIRST OF YEAR. WHILE BIRO GAVE NO SPECIFICS CONCERNING SIZE OF SO-CALLED PRICE ADJUSTMENTS, NEPSZABADSAG IN SUNDAY ARTICLE BY AUTHORTATIVE DEPUTY EDITOR ISTVAN FOLDES DID SHED SOME ADDITIONAL LIGHT ON SIZE OF INCREASES. HUNGARY WILL PAY 37 RUBLES PER TON FOR OIL IN COMPARISON TO PREVIOUS PRICE OF 15.59 RUBLES, WHILE THE AVERAGE PRICE OF ALL RAW MATERIAL AND ENERGY CARRIER EXPORTS TO HUNGARY WILL GO UP BY AVERAGE OF 52 PERCENT. AT SAME TIME, HOWEVER, HUNGARIANS HAVE SUCEEDED IN GETTING SOVIETS TO AGREE TO PAY MORE FOR THEIR EXPORTS TO THE USSR. HUNGARIAN EXPORT PRICES FOR BUSES WILL RISE 20-23 PERCENT WHILE AGRICULTURAL COMMODITIES WILL INCREASE BY AVERAGE OF 28 PERCENT. REGARDING PRICE INCREASES IN TRADE BETWEEN SOVIET UNION AND OTHER CEMA COUNTRIES, NEPSZABADSAG NOTED THAT CEMA MEMBERS HAD AGREED OR WERE REACHING AGREEMENT ON THIS YEAR'S PRICES WHICH WOULD BE BASED ON WORLD PRICE LEVELS FOR 1972-74 PERIOD. END SUMMARY.

2. IN WIDE RANGING REVIEW OF HUNGARIAN FOREIGN TRADE PROSPECTS FOR 1975, BIRO STATED THAT FROM NOW ON ALL INTER-CEMA PRICES WOULD BE REVIEWED AND ADJUSTED ANNUALLY. THE AVERAGE PRICE OF A COMMODITY ON THE WORLD MARKET DURING PREVIOUS 5-YEAR PERIODS WOULD BE USED AS A BASIS FOR CALCULATION. THIS NEW SYSTEM WOULD REPLACE PRACTICE OF RENEGOTIATING CEMA PRICES ONLY ONCE EVERY 5 YEARS. BIRO CONTINUED THAT CHANGES IN THE CAPITALIST WORLD WHICH NOW APPEAR TO BE LASTING HAVE NECESSITATED THE INTRODUCTION OF NEW PRICE RATIOS AND THAT HUNGARY AS WELL AS ITS CEMA PARTNERS IS INTERESTED THAT TRADE BE CONTINUED ON THE BASIS OF REALISTIC PRICES.

3. ON THE SUBJECT OF HUNGARIAN-SOVIET TRADE, BIRO MADE FIRST PUBLIC ADMISSION THAT AGREEMENT HAS BEEN REACHED TO ADJUST PRICES UPWARD IN 1975. WHILE BIRO DID NOT GIVE SPECIFIC DATA CONCERNING SCOPE AND MAGNITUDE OF THESE PRICE CHANGES, AUTHORATIVE ARTICLE IN FEBRUARY 23 NEPSZABADSAG NOTES THAT PRICES WILL GO UP FOR 56 PERCENT OF HUNGARIAN IMPORTS FROM USSR AND 63 PERCENT OF ITS EXPORTS TO THE LIMITED OFFICIAL USE

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SOVIETS. THE BIGGEST JUMP NOT SURPRISINGLY IS FOR OIL WHICH ACCOUNTS FOR APPROX 10 PERCENT OF HUNGARIAN IMPORTS FROM THE SOVIET UNION. OIL PRICES HVE MORE THAN DOUBLED FROM FORMER LEVEL OF 15.89 RUBLES PER TON TO 37 RUBLES PER TON. ON THE AVERAGE SOVIET ENERGY CARRIERS AND RAW MATERIALS ARE NOW COSTING HUNGARY 52 PERCENT MORE THAN LAST YEAR WITH SUBSTANTIAL INCREASES FOR ITEMS SUCH AS IRON ORE, PIG IRON, AND SUPER PHOSPHATE. PRICERISES FOR SOVIET

MACHINERY AND EQUIPMENT ON THE OTHER HAND HAVE BEEN RELATIVELY
MODEST GOING UP AN AVERAGE OF ONLY 3.3 PERCENT.

4. NEVERTHELESS, HUNGARIANS APPEAR TO HAVE WON A NUMBER
OF CONCESSIONS FROM SOVIETS TO HELP CUSHION SHOCK OF HIGHER
RAW MATERIAL PRICES. IKARUSZ BUSES, WHICH ACCOUNT FOR MORE
THAN 10 PERCENT OF TOTAL HUNGARIAN DELIVERIES TO THE USSR IN 1973,
WILL GO UP BETWEEN 20-23 PERCENT IN PRICE. AGRICULTURAL EXPORTS
WILL HAVE THEIR PRICES RAISED AN AVERAGE OF 28 PERCENT
WHILE LIGHT INDUSTRIAL GOODS WILL COST SOVIET PURCHASERS 19
PERCENT MORE. SPECIFIC EXAMPLES OF HUNGARIAN COMMODITIES
WHOSE EXPORT PRICES TO SOVIETS WILL BE INCREASED ARE APPLES 41
PERCENT (3.1 PERCENT OF TOTAL HUNGARIAN EXPORTS TO THE USSR IN 1973),
COTTON FABRIC 21 PERCENT (1.3 PERCENT OF TOTAL EXPORTS), WOOL FABRIC
40 PERCENT (.7 PERCENT), HEAVY CRANES 65 PERCENT (.7 PERCENT), AND
BEEF
43 PERCENT.

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5. IN ADDITION TO RECEIVING SIGNIFICANT INCREASES FOR SOVIET BOUND EXPORTS, HUNGARIANS WILL ALSO BE ALLOWED TO APPLY SIZABLE SURPLUS ACHIEVED DURING THE PAST YEARS IN BILATERAL TRADE WITH USSR AGAINST EXPECTED FUTURE DEFICITS. FURTHERMORE, THE SOVIETS HAVE INDICATED THEIR WILLINGNESS TO GRANT 10-YEAR CREDITS ON "AN EXCEPTIONALLY FAVORABLE BASIS" TO COVER TRADE DEFICITS THE HUNGARIANS MAY INCUR WITH THE SOVIETS FROM 1975 TO 1980. FINALLY, THE RUSSIANS HAVE AGREED TO SUPPLY HUNGARY WITH NATURAL GAS, CRUDE OIL, LUMBER, KEROSENE, AND HEAVY-DUTY TRACTORS IN QUANTITIES ABOVE THOSE STIPULATED IN THIS YEAR'S BILATERAL TRADE ACCORD. ALTHOUGH THESE GOODS WOULD PRESUMABLY BE PAID FOR LIMITED OFFICIAL USE

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IN HARD CURRENCY, THE PRICES WOULD BE FAVORABLE AND WOULD APPROX REDUCE HUNGARY'S IMPORTS FROM CAPITALIST COUNTRIES BY \$50 MILLION. THE USSR HAS ALSO INDICATED ITS READINESS TO DELIVER 760,000 TONS OF CRUDE OIL (IN ADDITION TO 6 MILLION GUARANTEED UNDER THE TERMS OF THE BILATERAL TRADE ACCORD) IN RETURN FOR DELIVERIES OF UNSPECIFIED GOODS WHICH THE HUNGARIANS WILL OBTAIN FROM UNNAMED THIRD MARKETS.

6. WHILE BIRO'S REMARKS MADE NO MENTION OF ANY PRICE CHANGES APPLIED TO GOODS EXCHANGES BETWEEN THE USSR AND OTHER CEMA COUNTRIES, NEPSZABADSAG ARTICLE NOTES THAT ADJUSTMENTS "WILL PARTIALLY AFFECT AGREEMENTS ALREADY CONCLUDED FOR 1975." THE ARTICLE CONTINUES THAT THE CEMA COUNTRIES HAVE AGREED OR ARE REACHING AGREEMENTS ON PRICES FOR 1975 BASED ON THE LEVEL OF WORLD PRICES FOR THE 1972-74 PERIOD.

7. COMMENT: BIRO ANNOUNCEMENT AND NEPSZABADSAG ARTICLE FORMAL CONFIRMATION OF REPORTS REGARDING PRICE RISES IN HUNGARIAN BILATERAL TRADE WITH USSR WHICH HAVE BEEN CIRCULATING AROUND BUDAPEST FOR SEVERAL WEEKS. FIRST GLANCE SUGGESTS THAT RUSSINAS HAVE NOT DRIVEN TOO HARD A BARGAIN AS THEY HAVE ACCEPTED LARGE PRICE INCREASES ON MORE OF HUNGARY'S MOST IMPORTANT EXPORT PRODUCTS, ARE APPARENTLY OFFERING TO DELIVER TO HUNGARY ON FAVORABLE TERMS QUANTITIES OF CRITICAL RAW MATERIALS NOT STIPULATED IN BILATERAL TRADE AGREEMENT, ARE WILLING TO EXTEND LONG-TERM CREDIT TO FINANCE EXPECTED HUNGARIAN DEFICITS IN BILATERAL TRADE AND ARE PERMITTING THE HUNGARIANS TO CREDIT PAST SURPLUSES IN TRADE WITH SOVIETS AGAINST EXPECTED DEFICITS. THUS WHILE ADJUSTING

TO THE NEW SITUATION IS GOING TO REQUIRE SOME SACRIFICES
ON HUNGARIAN SIDE AND THE ACCEPTANCE OF A LOWER GROWTH
RATE, IT APPEARS THAT ADJUSTMENT PROCESS IS LIKELY TO BE
A GRADUAL ONE WHICH WILL MINIMIZE PROSPECTS FOR ECONOMIC INSTABILITY
OR POLITICAL SIDE AFFECTS. IF AGREEMENT IS PERCEIVED
LOCALLY AS SOMETHING OF HUNGARIAN NEGOTIATING SUCCESS A
PRINCIPAL BENEFICIARY SHOULD BE FOREIGN TRADE MINISTER BIRO
WHO CARRIED LARGE PART OF NEGOTIATING BURDEN. THE LOCAL
GRAPEVINE HAS IT THAT BIRO IS A MAN ON THE WAY UP AND WILL
RECEIVE A SIGNIFICANT PROMOTION AT THE UPCOMING PARTY CON-
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REFERENCE PERHAPS TO A SENIOR PARTY POSITION.
PEDERSEN

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